

Message Text

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FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC 7908

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INFO AMEMBASSY DAR ES SALAAM

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PASS ALSO EXIM BANK, OPIC

E. O. 11652: N/A

TAGS: EINV, EFIN, KE

SUBJ: CENTRAL BANK EXPANDS LENDING LIMITS TO FOREIGN CONTROLLED
COMPANIES

1. CENTRAL BANK OF KENYA ANNOUNCED APRIL 29, THAT, FOR A PERIOD OF TWO YEARS, FOREIGN-CONTROLLED COMPANIES OPERATING IN AGRICULTURE, TOURISM, AND MANUFACTURING SECTORS WILL BE PERMITTED TO BORROW LOCALLY UP TO 100 PERCENT OF THEIR CAPITAL BASE. NEW RULING IS CALCULATED TO ENCOURAGE GROWTH OF PRIORITY ECONOMIC SECTORS AND, BY LIBERALIZING GOK'S DISCRIMINATORY TREATMENT OF EXPATRIATE ENTERPRISES, ATTRACT ADDITIONAL FOREIGN INVESTMENT.

2. UNTIL NOW, CENTRAL BANK LIMITED KENYAN BANK LOANS TO LOCAL INVESTORS ACCORDING TO PERCENTAGE OF FOREIGN OWNERSHIP OF BENEFICIARY FIRMS. AT MAXIMUM, ENTERPRISES WITH LESS THAN 20 PERCENT FOREIGN CONTROL COULD BORROW UP TO 60 PERCENT OF THEIR CAPITAL BASE (COMPUTED AS EQUITY, FOREIGN LOAN CAPITAL AND UNIMPAIRED RESERVES). FIRMS WITH OVER
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80 PERCENT KENYAN OWNERSHIP, ON THE OTHER HAND, CAN BORROW IN EXECESS OF CAPITAL BASE DEPENDING ON BANK ASSESSMENT OF COMPANY REPUTATION, MARKET STRENGTH, GROWTH PROSPECTS, ETC.

3. COMMENT: FYI NOT FOR PUBLICATION. RELAXATION OF BORROWING RESTRICTIONS IS WELCOMED BY FOREIGN INVESTORS AND BANKING COMMU-

NITY, ALTHOUGH FEW FORESEEE A SIGNIFICANT SURGE OF NEW INVESTMENT PLANS. COMPANIES NOW ENJOY CONVENIENCE OF EXPANDED ACCESS TO LOCAL CAPITAL MARKETS, BUT REDUCED US AND EUROCURRENCY INTEREST RATES HAVE REMOVED PREVIOUS ADVANTAGE OF USING KENYAN FUNDS. COST OF CAPITAL NOW HIGHER IN NAIROBI THAN PRINCIPAL OVERSEAS SOURCES. MORE IMMEDIATE IMPEDIMENT TO QUALIFYING FOR LOCAL FUNDS IS UNDERCAPITALIZATION OF MAJORITY OF FOREIGN-OWNED FIRMS. CENTRAL BANK STILL COMPUTES BORROWING LIMITS FOR EXPATRIATE COMPANIES ON CAPITAL BASE OF ENTERPRISE. LOCAL BANKS PROBABLY DERIVE GREATER BENEFITS FROM NEW REGULATIONS. PRESSED BY GOK AND CENTRAL BANK TO EXPAND LENDING TO INDUSTRIAL SECTOR AND PARTICULARLY AGRICULTURAL PROJECTS, FINANCIAL INSTITUTIONS PREFER FOREIGN FIRM CLIENTS IN ORDER TO MINIMIZE CREDIT RISKS. BANKS CAN NOW FILL THEIR LOAN "QUOTAS" WITH HIGHER CREDITS TO THESE SELECTED BORROWERS.

4. CENTRAL BANK'S TWO-YEAR LENDING "HOLIDAY" TAKES ADVANTAGE OF KENYA'S CURRENTLY STRONG FOREIGN RESERVE POSITION AND COMFORTABLE LIQUIDITY OF COMMERCIAL BANKS. FACT THAT CENTRAL BANK REFUSED TO GO ALL THE WAY AND PUT FOREIGN FIRMS ON PAR WITH KENYAN COMPANY BORROWERS INDICATES THAT GOVERNMENT WANTS TO ASSESS EFFECT ITS LIBERALIZATION WILL HAVE ON PROFIT REPATRIATION LEVEL.
LINDSTROM

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